

Message Text

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ACTION STR-07

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-11 IO-13
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LAB-04 NSAE-00 PA-01 CTME-00 AID-05 SS-15 ITC-01
TRSE-00 SP-02 SOE-02 OMB-01 DOE-15 NSCE-00 SSO-00
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC NIACT IMMEDIATE 7394
INFO USMISSION GENEVA
AMEMBASSY BRUSSELS

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USEEC ALSO FOR EMBASSY

PASS ELECTRONICALLY FOR USDA HATHAWAT AND STR WOLFF/

E.O. 11652: N/A
TAGS: UK, MTN, BE
SUBJECT: GRAIN NEGOTIATIONS; INTERIM COMMITTEE;
DEFINITION OF NOTIONAL PRICES

REF: STATE 156939

1. SUMMARY. FOLLOWING SLIGHT MODIFICATIONS REFTEL
LANGUAGE MADE AS RESULT OF CONSULTATIONS WITH OTHER
EXPORTERS, THE TWO NOTIONAL PRICE DEFINITION PARAGRAPHS
WERE PUT FORWARD BY US DEL IN DRAFTING GROUP OF

INTERIM COMMITTEE WEDNESDAY MORNING. EC RESPONDED
INITIALLY THAT THIS NEW APPROACH MAY HAVE POSSIBILITY,
BUT HELD TO ITS PREVIOUS FORMULATION AND LATER IN THE
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DAY TOOK MORE DEFINITIVE POSITION THAT US FORMULATION
UNACCEPTABLE. ARGENTINA, MEANWHILE, COULD ACCEPT
NEITHER, AND INSTEAD PUT FORWARD A THIRD VERSION.
FURTHER MEETING OF DRAFTING GROUP LATE WEDNESDAY AGAIN
DEBATED THE FORM AND IMPLICATIONS OF THE THREE ALTERNA-
TIVES AND ENDED WITHOUT AGREEMENT. IN VIEW OF WIDE
DIVERGENCE, NO DEFINITION LANGUAGE IS BEING PUT TO THE

FULL INTERIM COMMITTEE. END SUMMARY.

2. DURING PRESENTATION OF REFTEL LANGUAGE TO EXPORTERS, CANADA EXPRESSED CONCERN THAT IT MIGHT LEAD TO NECESSITY FOR DIFFERENTIALS, INDICATING THAT "CLASS" REFERS TO A FAIRLY SPECIFIC DESCRIPTION OF WHEAT. IN EFFORT TO MEET THIS POINT WITH BROADER WORDING, WE SUBSTITUTED THE WORD "TYPE", WITH THE UNDERSTANDING THAT THIS WOULD CONNOTE SOFT, SEMI-HARD, OR HARD WHEAT. AUSTRALIA VOICED PARTICULAR CONCERN WITH THE PHRASE "FOR X DAYS", INDICATING THAT THIS IMPLIED BOTH AN UNDESIRABLE DEGREE OF PRECISION AND, MORE PARTICULARLY, THE SUGGESTION THAT SOME FURTHER ACTION IS BEING TRIGGERED. WE THEREFORE DELETED THIS PHRASE FROM THE VERSION WHICH WE SUBSEQUENTLY PUT FORWARD IN DRAFTING GROUP. ARGENTINA EXPRESSED MORE FUNDAMENTAL CONCERN WITH THE PROPOSED FORMULATION AND WAS UNABLE TO SUPPORT IT EVEN AS MODIFIED. THEY ARE NOW CONVINCED THAT UNTIL LANGUAGE ELSEWHERE IN THE AGREEMENT WHICH REFERS TO NOTIONAL PRICES IS FINALIZED TO THEIR SATISFACTION, THEY WOULD FACE AN UNACCEPTABLE RISK THAT AN "UNDEFINED" DEFINITION WOULD PLACE HEAVIEST BURDEN ON THEIR WHEATS WHICH TEND TO BE RELATIVELY LOWER PRICED IN TERMS OF QUALITY, AND WHICH BECAUSE OF HIGH FREIGHT COSTS TEND TO BE LOWER IN AN F.O.B. POSITION THAN THOSE OF OTHER EXPORTERS. ZORREGETA SAYS HE IS "GREATLY CONCERNED" THAT AN OVERALL LIMITED OFFICIAL USE

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FORMULATION WILL EVOLVE IN WHICH, WHETHER OR NOT EXPRESSLY, IT WILL BE INCUMBENT UPON ANY INDIVIDUAL EXPORTING COUNTRY TO TAKE UNILATERAL NATIONAL ACTIONS TO PREVENT THE EXPORT PRICE OF HIS WHEAT FROM GOING BELOW THE NOTIONAL LEVEL IN A SITUATION WHERE INDICATOR-SCALE ACTIONS THEMSELVES, TAKEN JOINTLY WITH OTHER COUNTRIES, HAVE FAILED TO ARREST THE DOWNWARD MOVEMENT OF PRICES. HE THEREFORE AGREES WITH THE INTENT OF OUR "UNDEFINED" APPROACH AND SAYS HE MAY WELL EVENTUALLY BE ABLE TO ACCEPT THE US FORMULATION, BUT NOT UNTIL HE SEES MUCH MORE OF THE FINALIZED LANGUAGE OF ASSOCIATED PROVISIONS TO ALLEVIATE HIS CONCERNS. HE THEREFORE PUT FORWARD A SEPARATE FORMULATION TO THE DRAFTING GROUP.

3. THE EXACT TEXT OF THE THREE ALTERNATIVES WHICH NOW STAND BEFORE THE DRAFTING GROUP ARE AS FOLLOWS:

A. EC VERSION

THE LOWER NOTIONAL PRICE IS SET IN RELATION TO THE LOWEST PRICE WHEAT IN THE INDICATOR BASKET ESTABLISHED BY ARTICLE (E). THE UPPER NOTIONAL PRICE IS SET IN RELATION TO THE HIGHEST PRICE WHEAT IN THE INDICATOR BASKET.

B. ARGENTINE VERSION

THE NOTIONAL PRICES ARE THE BENCHMARKS TO WHICH THE
MEASURES TO BE TAKEN BY MEMBERS AT THE THIRD RISING/
FALLING PRICE POINTS ARE TO BE RELATED, AND THEY
ARE FIXED IN TERMS OF THE BASKET INDICATOR

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ESTABLISHED IN ARTICLE (E).

C. US VERSION

THE NOTIONAL LOWER PRICE SHALL HAVE BEEN REACHED
WHEN ANY MAJOR TRADED TYPE OF WHEAT, F.O.B. EXPORT
POINT, IS BELOW \$.....PER TON.

THE NOTIONAL UPPER PRICE SHALL HAVE BEEN REACHED
WHEN ANY MAJOR TRADED TYPE OF WHEAT, F.O.B. EXPORT
POINT, IS ABOVE \$.....PER TON.

4. REMAINING LANGUAGE OF ARTICLE ON NOTIONAL
PRICE PROVISIONS, WHICH WAS AGREED IN DRAFTING GROUP AND
WAS PUT FORWARD TO FULL INTERIM COMMITTEE, WITH
NOTATION THAT DEFINITIONAL PARAGRAPH HAS THUS FAR NOT
BEEN AGREED, IS AS FOLLOWS:

MEMBERS UNDERTAKE, IN ACCORDANCE WITH THE CON-

SULTATION PROCEDURES AT THE THIRD RISING PRICE
POINT AND THE THIRD FALLING PRICE POINT ON THE
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INDICATOR SCALE IN ARTICLE (D), TO ADOPT MEASURES
AS PROVIDED FOR IN ARTICLE WITH THE AIM THAT THE
PRICES AT WHICH COMMERCIAL TRADE TAKES PLACE SHOULD
REMAIN BETWEEN THE UPPER AND LOWER NOTIONAL PRICES
SPECIFIED IN PARAGRAPH 1 OF THIS ARTICLE.

5. DURING DRAFTING GROUP DEBATE, EC (EATON) STATED THAT
EC MUST HAVE A PRECISE ENOUGH DEFINITION TO BOTH KNOW
EXACTLY WHEN THE LOWER NOTIONAL HAS BEEN REACHED
AND ALSO KNOW, AT THE TIME OF FINAL FALLING POINT CON-
SULTATIONS, EXACTLY HOW MUCH ROOM THERE IS LEFT TO GO.
HE ARGUES THAT WITHOUT SUCH PRECISION IT WOULD NOT BE
POSSIBLE TO DEFINE ADEQUATE NATIONAL MEASURES DURING THE
FINAL FALLING POINT CONSULTATIONS WHICH CAN BE REASON-
ABLY CERTAIN OF CONTAINING TRADING PRICES WITHIN
NOTIONAL RANGE. HE ALSO ARGUED THAT THE PHRASE "IS
BELOW" CONTAINED IN US FORMULATION REPRESENTS OPEN
RECOGNITION THAT PRICES MAY NOT BE CONTAINED WITHIN
NOTIONAL RANGE, AND THAT THIS WOULD BE UNACCEPTABLE.
US, MEANWHILE, ARGUED THAT ITS FORMULATION RECOGNISES
THE REALITY THAT THE RELATIONSHIP BETWEEN PRICES OF
DIFFERENT WHEATS IS CONTINUALLY CHANGING AND THAT
ACTUAL CONTRACT PRICES OFTEN REMAIN UNKNOWN. WE
THEREFORE TOOK THE POSITION THAT FURTHER DEFINITION
BEYOND THAT CONTAINED IN US FORMULATION WOULD BE MIS-
LEADING, UNNECESSARY AND NOT PRACTICABLE. WE ALSO
POINTED OUT THAT ANY ATTEMPT TO DEFINE MORE PRECISELY
WOULD FURTHER CREATE THE IMPRESSION, IF NOT LEGAL
INTERPRETATION, THAT OBLIGATIONS FOR INDIVIDUAL MEMBERS
ARE ATTACHED TO THE NOTIONAL POINTS, I.E., THE IMPLIED
OBLIGATION NOT TO ALLOW THEIR RESPECTIVE TRADING PRICES
TO GO OUTSIDE THESE POINTS.

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6. AT ONE POINT EATON SUGGESTED THAT IT WOULD BE
LOGICAL, ONCE THIS LANGUAGE IS AGREED, TO CONSIDER A
FURTHER PARAGRAPH AS TO WHAT SHOULD BE DONE WHEN THE
NOTIONAL POINTS ARE REACHED. LATER, WE PURSUED INFOR-
MALLY WITH HIM WHETHER THERE IS AN EC INTENTION TO
ADVANCE SUCH ADDITIONAL LANGUAGE AT SOME LATER STAGE,
KNOWING IT PROBABLY WOULD BE SUPPORTED BY MANY

COUNTRIES. HE RESPONDED THAT HE HIMSELF DID NOT AT THIS TIME HAVE SUCH INTENT, BUT COULD NOT SAY WHAT MIGHT HAPPEN LATER.

7. OUR VIEW IS THAT THE IMPASSE ON THIS POINT WILL NOT BE EASILY RESOLVED UNLESS WE ARE PREPARED TO RISK

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HAVING US TRADING PRICES, MORE EXPOSED AS THEY ARE THAN THOSE OF OTHER EXPORTING COUNTRIES, SUBJECT TO SEVERE PRESSURES FOR UNILATERAL CONTAINMENT ACTIONS IN SITUATIONS WHERE THE INDICATOR SCALE, JOINT ACTIONS PROVE INADEQUATE. IN OTHER WORDS, OUR DELEGATION FEELS ESSENTIALLY THE SAME CONCERN, THOUGH FOR SOMEWHAT DIFFERENT REASONS, AS THOSE EXPRESSED BY ARGENTINA AND SHARED TO SOME EXTENT BY BOTH CANADA AND AUSTRALIA.

8. IT SHOULD BE NOTED THAT, IN FRENCH EC CONTINUES TO REFER TO "SAFEGUARD PRICES" AND THAT SECRETARIAT WORKING PAPER TRANSLATED "WITH THE AIM THAT PRICES SHOULD REMAIN" INTO FRENCH AS "WITH A VIEW THAT PRICES BE MAINTAINED" IN THE NOTIONAL PRICE ARTICLE AND "IN ORDER TO ASSURE

THAT PRICES REMAIN" IN ARTICLE 3. US DEL QUESTIONED
THIS TRANSLATION.

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9. COMMENT. CANADA AND ARGENTINA HAVE EXPRESSED STRONG
DESIRE TO DROP "NOTIONAL PRICE" CONCEPT. DESPITE
GENERAL AGREEMENT ON TEXT IN PARAGRAPH 4, THERE REMAINS
CONSIDERABLE CONFUSION AND DISCONTENT AMONG MAJOR
DELEGATIONS ON THE PURPOSE OF THE NOTIONAL
PRICE CONCEPT.

10. EC DISTRIBUTED PRICE PROPOSAL AS FOLLOWS:

\$2/L0 UPPER NOTIONAL
\$190 THIRD USING PRICE POINT
\$175 SECOND USING PRICE POINT
\$167 FIRST USING PRICE POINT
\$137 FIRST FALLING PRICE POINT
\$115 SECOND FALLING PRICE POINT
\$107 THIRD FALLING PRICE POINT
\$90 LOWER NOTIONAL

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Message Attributes

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